

COST OF SERVICE SCHEDULES

BAY STATE GAS COMPANY
D.T.E. 05-27
TEST YEAR ENDED DECEMBER 31, 2004
SUMMARY COST OF SERVICE

<u>PRO FORMA COST OF SERVICE</u>	<u>AMOUNT</u>
Gas Expense	\$307,478,651
Other Operations and Maintenance Expense	87,918,973
Depreciation Expense	23,197,432
Amortization Expense	3,909,545
Taxes Other Than Income Taxes	10,073,593
Interest On Customer Deposits	72,506
Income Taxes	7,949,511
Return On Rate Base	<u>22,404,852</u>
 <u>TOTAL PRO FORMA COST OF SERVICE</u>	 <u>\$463,005,063</u>
 <u>ADJUSTED OPERATING REVENUES</u>	 <u>\$483,741,469</u>
 <u>REVENUE SURPLUS</u>	 <u>\$20,736,406</u>

<u>PRO FORMA COST OF SERVICE</u>	<u>TEST YEAR AMOUNT</u>	<u>ADJUSTMENTS</u>	<u>PRO FORMA AMOUNT</u>
Gas Expense	\$323,863,512	(\$16,384,861)	\$307,478,651
Other Operations and Maintenance Expense	99,007,484	(11,088,511)	87,918,973
Depreciation Expense	24,126,707	(929,275)	23,197,432
Amortization Expense	15,036,749	(11,127,204)	3,909,545
Taxes Other Than Income Taxes	9,665,342	408,251	10,073,593
Interest On Customer Deposits	0	72,506	72,506
Income Taxes	11,571,079	13,232,552	7,949,511
Return On Rate Base	<u>27,186,460</u>	<u>(4,781,608)</u>	<u>22,404,852</u>
 <u>TOTAL PRO FORMA COST OF SERVICE</u>	 510,457,333		 \$463,005,063
 <u>OPERATING REVENUES</u>	 \$510,457,335	 (\$26,715,866)	 <u>\$483,741,469</u>
 <u>REVENUE SURPLUS</u>			 <u>\$20,736,406</u>

BAY STATE GAS COMPANY
D.T.E. 05-27
TEST YEAR ENDED DECEMBER 31, 2004
ADJUSTMENTS

<u>OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS</u>	<u>AMOUNT</u>
Wages -- Union	\$1,256,605
Wages -- Non-Union	443,840
Incentive Compensation	(124,422)
Medical and Dental Expense	741,045
Property and Liability Insurance Expense	(38,702)
Self Insurance Claims	80,021
Gain on Sale of Property	(408,197)
Rate Case Expense	380,786
Bad Debt Expense -- Gas Revenue	7,106,032
Bad Debt Expense -- EP&S	0
NiSource Corporate Services	748,122
Charitable Contributions	(147,271)
Amortization of Deferred Farm Discounts	15,320
Postage Increase	67,947
GTI Research and Development Costs	0
Itron Lease Payments	310,104
Metscan Meter Reading Lease Payment	(2,919,051)
CGA & LDAC Recoverable Costs	(9,227,167)
Inflation Adjustment	1,467,701
Former Chairman's Severance Payment	(100,000)
Legal Retainer	(62,238)
Promotional Expenses	(1,376,645)
NCSC Medical and Dental Costs	(274,566)
Workmens Compensation Capitalization	(164,069)
Corporate Jet Expenses	(150,445)
Fines, Penalties, and Late Fees	(256,810)
Pensions	(2,700,563)
Post-Retirements Benefits Other Than Pensions	(2,325,888)
IBM Contracted Savings	(3,430,000)
<u>TOTAL OPERATION AND MAINTENANCE EXPENSE ADJUSTMENTS</u>	<u>(\$11,088,511)</u>
<u>DEPRECIATION EXPENSE ADJUSTMENTS</u>	
Annualized Depreciation Expense for Test Year End Plant in Service	(\$929,275)
Completed Construction Work In Service Not Included In Account 101	0
<u>TOTAL DEPRECIATION EXPENSE ADJUSTMENTS</u>	<u>(\$929,275)</u>
<u>AMORTIZATION EXPENSE ADJUSTMENTS</u>	
Amortization of Goodwill	(\$11,127,204)
Amortization of Metscan Meter Reading Devices	0
<u>TOTAL AMORTIZATION EXPENSE ADJUSTMENTS</u>	<u>(\$11,127,204)</u>
<u>TAXES OTHER THAN INCOME TAXES ADJUSTMENTS</u>	
Annualization of Property Tax Bills	\$310,773
FICA	97,478
<u>TOTAL TAXES OTHER THAN INCOME TAXES ADJUSTMENTS</u>	<u>\$408,251</u>
<u>REVENUE ADJUSTMENTS</u>	
Weather Adjustment	(\$2,555,582)
Revenue Annualization	(9,136,839)
Transportation of Gas Residential	4,167
Transportation of Gas Comm / Industr	(777,408)
Off System Sales	(3,874,467)
Lost Net Revenue	(329,961)
Carrying Charges Pre-Tax Rate of Return	(988,820)
Production and Storage Revenues	8,085,135
Elimination Of Indirect GAF and DAF	(26,092,473)
Add Bad Debt Expense Included In Indirect Gas Cost	7,118,165
Additional Con Ed Revenue	404,852
Additional Dual Fuel Revenue	203,841
Additional Special Contract Revenue	429,265
Additional EP&S Revenue	794,259
<u>TOTAL REVENUE ADJUSTMENTS</u>	<u>(\$26,715,866)</u>

BAY STATE GAS COMPANY
D.T.E. 05-27
TEST YEAR ENDED DECEMBER 31, 2004
RATE BASE

<u>RATE BASE</u>	<u>Test-Year End Amount</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Utility Plant In Service	\$1,204,671,044	(\$477,955,915)	\$726,715,129
Accumulated Depreciation	(266,210,015)	10,763,639	(255,446,376)
Accumulated Amortization	(89,869,431)	70,541,969	(19,327,462)
Net Utility Plant In Service	\$848,591,598	(\$396,650,307)	\$451,941,291
<u>ADDITIONS:</u>			
Construction Work In Progress	0	0	0
Materials and Supplies	3,640,535	(232,466)	3,408,069
Working Capital	11,449,225	(1,281,938)	10,167,287
<u>DEDUCTIONS:</u>			
Accumulated Deferred Income Taxes	(86,081,290)	558,752	(85,522,538)
Unamortized Pre-1971	(11,170)	0	(11,170)
Customer Construction Advances	(11,088)	0	(11,088)
Customer Deposits	(3,090,784)	0	(3,090,784)
Unclaimed Checks	(278,310)	0	(278,310)
<u>TOTAL RATE BASE</u>	<u>\$774,208,716</u>	<u>(\$397,605,959)</u>	<u>\$376,602,757</u>

**BAY STATE GAS COMPANY
D.T.E. 05-27
TEST YEAR ENDED DECEMBER 31, 2004
ADJUSTMENTS TO RATE BASE**

<u>ADJUSTMENTS TO UTILITY PLANT IN SERVICE</u>	<u>Amount</u>
Organization Costs (Bay State / NIPSCO Goodwill)	(\$442,163,257)
Organization Costs (Lawrence Goodwill)	(3,743,730)
METSCAN	(5,266,581)
Customer Information System	(21,546,059)
Capital Additions:	
No Explanation For Cost Over-runs	(762,210)
Excessive Cost Over-runs	(4,474,078)
TOTAL ADJUSTMENTS TO UTILITY PLANT IN SERVICE	<u>(\$477,955,915)</u>
 <u>ADJUSTMENTS TO ACCUMULATED AMORTIZATION OF INTANGIBLE PLANT</u>	
Accumulated Amortization of Organization Costs (Bay State / NIPSCO Goodwill)	\$67,605,214
Accumulated Amortization of Organization Costs (Lawrence Goodwill)	<u>\$2,936,755</u>
TOTAL ADJUSTMENTS TO ACCUMULATED AMORTIZATION OF INTANGIBLE PLANT	<u>\$70,541,969</u>
 <u>ADJUSTMENTS TO ACCUMULATED DEPRECIATION</u>	
METSCAN	\$2,145,215
Customer Information System	<u>\$8,618,424</u>
TOTAL ADJUSTMENTS TO ACCUMULATED DEPRECIATION	<u>\$10,763,639</u>
 <u>ADJUSTMENTS TO ACCUMULATED DEFERRED INCOME TAXES</u>	
METSCAN	\$558,752
TOTAL ADJUSTMENTS TO ACCUMULATED DEFERRED INCOME TAXES	<u>\$558,752</u>

BAY STATE GAS COMPANY
D.T.E. 05-27
TEST YEAR ENDED DECEMBER 31, 2004
CASH WORKING CAPITAL ALLOWANCE

<u>CASH WORKING CAPITAL ALLOWANCE</u>	<u>AMOUNT</u>
<u>OTHER OPERATION AND MAINTENANCE EXPENSES</u>	
Non-Gas, Non-Service Company Operations and Maintenance Expenses	\$87,918,973
Cash Working Capital Allowance Factor	<u>42.21/365</u>
<u>CASH WORKING CAPITAL ALLOWANCE FOR OTHER NON-GAS O&M EXPENSES</u>	<u>\$10,167,287</u>

BAY STATE GAS COMPANY
D.T.E. 05-27
TEST YEAR ENDED DECEMBER 31, 2004
INCOME TAX CALCULATION

	<u>Amount</u>
RATE BASE	\$376,602,757
Overall Rate Of Return On Rate Base	<u>5.95%</u>
RETURN ON RATE BASE	\$22,404,852
<u>DEDUCTIONS:</u>	
Weighted Cost Of Debt Rate	2.57%
Interest Expense Deduction	(\$9,697,519)
Investment Tax Credit	(\$373,740)
Amortization Of Excess Deferred Income Taxes	<u>\$220,604</u>
Taxable Income Base	\$12,554,197
Income Tax Gross Up Factor [$1 / (1 - 0.39225)$]	1.6454
GROSS TAXABLE INCOME	\$20,656,844
Massachusetts Franchise Tax Rate	6.50%
Massachusetts Franchise Tax	\$1,342,695
Federal Taxable Income	\$19,314,149
Federal Income Tax Rate	35.00%
Federal Income Tax	\$6,759,952
Investment Tax Credit	(\$373,740)
Amortization Of Excess Deferred Income Taxes	<u>\$220,604</u>
<u>TOTAL NET FEDERAL AND MASSACHETTS INCOME TAX</u>	<u>\$7,949,511</u>

BAY STATE GAS COMPANY
D.T.E. 05-27
TEST YEAR ENDED DECEMBER 31, 2004
COST OF CAPITAL

OVERALL WEIGHTED COST OF CAPITAL

	<u>Test Year End Ratios</u>	<u>Test Year End Ratios</u>	<u>Effective Interest Rate</u>	<u>Weighted Cost Rate</u>
Short-Term Debt	\$153,211,854	27.77%	1.94%	0.54%
Long-Term Debt	183,500,000	33.26%	6.12%	2.04%
Common Equity	<u>214,940,703</u>	38.96%	8.66%	<u>3.37%</u>
TOTAL	<u>\$551,652,557</u>			<u>5.95%</u>

BAY STATE GAS COMPANY
D.T.E. 05-27
TEST YEAR ENDED DECEMBER 31, 2004
INFLATION ADJUSTMENT

	<u>AMOUNT</u>
<u>TEST YEAR OPERATION AND MAINTENANCE EXPENSES</u>	\$99,007,484
Wages -- Union	(\$23,435,368)
Wages -- Non-Union	0
Incentive Compensation	(124,422)
Pensions	(2,700,563)
PBOP	(2,325,888)
Medical and Dental Expense	(3,428,461)
Property and Liability Insurance Expense	(2,292,280)
Self Insurance Claims	(397,749)
Bad Debt Expense -- Gas Revenue	(3,199,694)
Bad Debt Expense -- EP&S	(412,767)
NiSource Corporate Services:	
Payroll Per Books	(10,499,278)
Medical and Dental	(1,231,237)
Pension	(482,106)
PBOP	(121,725)
FICA	(744,396)
Charitable Contributions	(8,735)
Charitable Contributions	(147,271)
Postage	(1,255,946)
Metscan Meter Reading Lease Payment	(2,919,051)
CGA & LDAC Recoverable Costs	(9,227,167)
NCSC Capital Costs	(762,423)
 ADJUSTMENTS	 <u>(65,716,527)</u>
 <u>RESIDUAL OPERATION AND MAINTENANCE EXPENSE</u>	 \$33,290,957
 <u>INFLATION FACTOR</u>	 3.51%
 <u>TOTAL INFLATION ADJUSTMENT</u>	 <u>\$1,168,513</u>